


AR14



PALOMA PETROLEUM LTD.

1975 annual report



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PALOMA PETROLEUM LTD.

Formed under the laws of the Province of Alberta as the result of an amalgamation October 1, 1974 between Paloma Petroleum Ltd. and Pinnacle Petroleums Ltd.

Highlights of Operations

	1975	1974
FINANCIAL		
Gross Income	\$ 1,965,366	\$ 1,251,965
Cash flow from operations	1,274,158	514,521
Per share31	.12
Net Earnings before extraordinary items	659,688	169,727
Per share16	.04
Net Earnings	735,288	477,290
Per share18	.11
OPERATIONS		
Natural gas sales (MCF)	2,679,000	2,411,908
Daily average	7,340	6,608
Crude oil and condensate production (barrels)	159,816	147,863
Daily average	438	405
Proven reserves:		
Natural gas (MCF)	103,238,000	92,319,000
Crude oil and condensate (barrels)	1,932,332	1,937,029
Probable additional reserves:		
Natural gas (MCF)	4,170,000	2,517,000
Crude oil and condensate (barrels)	482,047	421,257
Land holdings including royalty interests:		
Gross acres	4,317,615	4,105,577
Net acres	319,785	257,575

Annual Meeting

The Annual and Special General Meeting of the Shareholders will be held on April 28, 1976, in Salon A, Holiday Inn, 708 - 8th Avenue S.W., Calgary, Alberta, at 2:00 p.m., Calgary time.

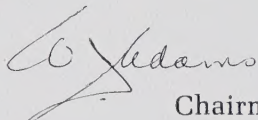
Chairman's Message

Your Company saw significant changes in its operations in 1975, and not the least important of these was its acquisition of approximately 91% of the issued shares of Compass Investments of Alberta Limited, which is a public company incorporated in Alberta.

This acquisition gives your Company a good base in the real estate and hotel and catering businesses, and your President, Mr. John E. Stobart, will tell you more of this diversification on the part of Paloma Petroleum Ltd. in the Report.

Mr. Stobart, a native of Saskatchewan, became your President on December 3, 1975, and brings to the management of your group of companies a wealth of experience in the gas and oil industry, gained over the past 27 years. He has worked extensively in both the technical and the management sides of the industry, and in many countries. He has seen service in Canada, South America, the Caribbean and in the United Kingdom: and he has also been involved in the industry in several countries in Europe and Africa.

I am pleased to welcome Mr. Stobart to the leadership of our management team on behalf of all shareholders.



Chairman

March 29, 1976
Calgary, Alberta

Report of the Directors to the Shareholders

On December 3, 1975, the controlling interest of Paloma Petroleum Ltd. ("Paloma") was acquired by R. J. Adams, of London, England. Simultaneously, Paloma acquired the control of Compass Investments of Alberta Limited ("Compass Alberta"), of which Mr. Adams was the majority shareholder.

Compass Alberta owns land and hotels in downtown Edmonton and in the oil communities of Drayton Valley and Swan Hills, in Alberta. Compass Alberta has a wholly-owned subsidiary company, Conquest Oil & Mining Ltd. ("Con-

quest") which itself has a subsidiary, Compass Resources Ltd. ("Compass Resources"), both of which are actively engaged in oil and gas exploration. Conquest has oil production in Alberta and Saskatchewan, while Compass Resources drilled a number of successful gas wells in Alberta during 1975 and will have these wells on-stream during 1976.

As a result of increases in production and oil and gas prices, the Company's financial results showed a marked improvement over those of the previous year. Paloma's cash flow from operations amounted to \$1,274,158 or 31 cents per share as compared to 1974 cash flow of \$514,521 or 12 cents per share. Net earnings for the year were \$735,288 or 18 cents per share as compared to last year's earnings of \$477,290 or 11 cents per share. Working capital at December 31, 1975 amounted to \$263,255.

Paloma's share of production from the Dunvegan gas field during 1975 averaged 6.3 million cubic feet of gas and 54 barrels of condensate per day. Twelve additional development wells were drilled within the field boundaries. This infill drilling program, with corresponding plant expansion, was completed in November 1975. Gas production from the Dunvegan field should increase about 30% as a result of this program. Paloma's natural gas reserves, before deduction of royalties, totalled 107,408 million cubic feet at December 31, 1975, which compares with 94,836 million cubic feet at December 31, 1974. These reserves are all in Alberta, where Paloma's proceeds from the sale of natural gas in the month of December, 1975, was 96.3¢ per thousand cubic feet.

New gas production is scheduled to go on-stream during 1976 at Hines Creek, Dixonville and Woking, in the Peace River area of Alberta; and at Jarrow, Sedalia, Wainwright, Nestow and Ferrybank in central Alberta.

Production of crude oil and condensate during 1975 was 159,816 barrels, giving a daily average of 438 barrels, which is an improvement of 8% over 1974.

Alberta oil prices increased by \$1.50 at the wellhead, during 1975, and are expected to increase in 1976. In Saskatchewan, where 18%

of our crude oil and condensate is produced, there were no appreciable price increases in 1975 and any future increases will depend entirely on government policy.

In 1976 exploratory drilling will continue, with emphasis on the Peace River area, and in central Alberta at Jarrow, Nestow and Wainwright.

The gas price, in British Columbia, net of royalties and operating costs, was changed in 1975 and now compares favorably with prices received in Alberta. We plan to participate in drilling activity in British Columbia during 1976.

Paloma Petroleum, Inc., a wholly-owned subsidiary in the United States, is participating in a land acquisition program in the Arkoma Basin of Oklahoma and Arkansas, and in the Cotton Valley area of N.W. Louisiana. We expect to join in the drilling of a 3,500 ft. test well on a gas prospect in Arkansas in 1976. In Louisiana, Paloma has negotiated a farmout, whereby a third party will earn a 75%-share of our interest in our acreage, in exchange for a cash bonus and the drilling of a 12,000 ft. well to test the Smackover formation. This well will be located two miles east of the present limits of the Cotton Valley field, which produces gas and condensate from the Smackover formation.

On December 3, 1975, when the change in control of Paloma took place, Messrs. W. J. Adams, D. M. Laurence and John E. Stobart became directors of the Company, replacing Messrs. W. G. Brown, R. J. Gowdy and C. A. Smith, who resigned at that time. We are pleased that W. Roy Jennings, of Calgary, and W. H. Molle, of Toronto, have continued to serve as directors.

Mr. W. J. Adams, who resides in Edmonton, Alberta, is Chief Executive Officer of Compass Investments of Alberta Limited, and was appointed Chairman of Paloma. Mr. Adams has had many years of business experience in Canada, in hotel and property management as well as the natural resources industry.

Mr. D. M. Laurence, of Calgary, is the President of Compass Consultants (Canada) Ltd., which provides management and financial advisory services to Paloma, and its affiliates, inter alia. Mr. Laurence's broad financial and legal experience will be a valuable asset to the Board of Directors.

The senior employees of the Company are: Mr. Dennis L. Kolesar, P. Eng., Vice-President in charge of Operations; Mr. Norman F. Talbot, C.A., Secretary-Treasurer, Chief Financial Officer of the Company; Mr. J. J. Nadurak, Operations Manager; and Mr. G. Meggison, R.I.A., Chief Accountant.

This management team provides a good balance of financial and administrative skills with operational expertise and, with its help, we look forward to a year of further progress.

On behalf of the Board of Directors

John E. Stobart

President

March 29, 1976
Calgary, Alberta



Review of Operations

SUMMARY OF DRILLING ACTIVITY

Paloma Petroleum Ltd. ("Paloma"), and its recently-acquired subsidiary company, Conquest Oil & Mining Ltd. ("Conquest"), and Conquest's subsidiary, Compass Resources Ltd. ("Compass Resources"), were all active in drilling during 1975. These companies ("the Energy Com-

panies"), participated in the drilling of 42 wells of which 27 were exploratory wells and 15 were development wells. Twelve of the 27 exploratory wells resulted in producing wells and all of the development wells were successful.

The Company's drilling statistics for 1975 are shown below:

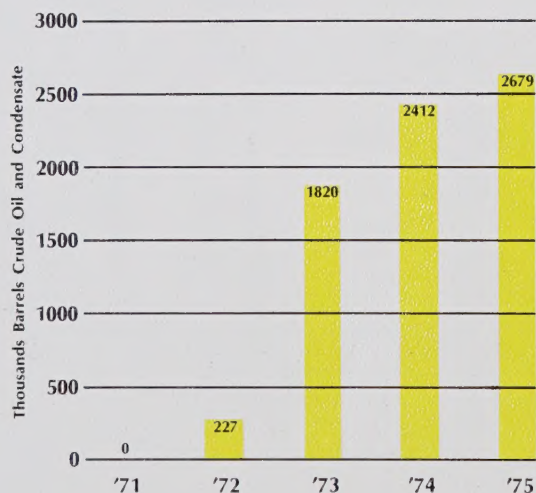
	PALOMA		CONQUEST/COMPASS		TOTAL	
	Gross	Net	Gross	Net	Gross	Net
Exploration wells						
Productive	6	0.86	6	2.18	12	3.04
Dry	10	1.56	5	1.38	15	2.94
Development wells						
Productive	15	0.85	—	—	15	0.85
Dry	—	—	—	—	—	—
TOTAL	31	3.27	11	3.56	42	6.83

High priority is given to putting new discoveries on-stream with minimum delay. Virtually all of the 1975 discoveries are scheduled to start producing revenue during the first half of 1976. With increasing cash flow, your management

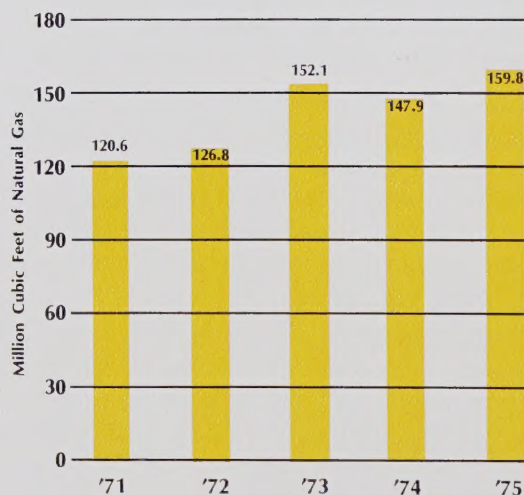
plans to continue exploring aggressively in areas that combine good geological potential with ready access to market and the early return of investment.

Production

AMALGAMATED PALOMA
CRUDE OIL AND CONDENSATE
PRODUCTION



AMALGAMATED PALOMA
NATURAL GAS SALES



NATURAL GAS

During 1975, sales of natural gas were 2,679 million cubic feet or a daily average of 7.3 million cubic feet. A substantial increase in gas sales can be expected in 1976 due to increased production at the Dunvegan field and the placing on-stream of new gasfields at Sedalia, Jarrow, Nestow, Wainwright, Hines Creek, Dixonville and Woking, all in Alberta.



OIL AND CONDENSATE

Crude oil and condensate production totalled 159,816 barrels for 1975. This represents an average production of 438 barrels per day. The decline of oil production in Saskatchewan and Pembina was offset by increased condensate production in Dunvegan and the addition of 55 barrels per day of oil production from recently-acquired Conquest.

Reserves (Before deducting royalties)

DECEMBER 31, 1975

CRUDE OIL AND CONDENSATE (BBLs)	Proven	Probable Additional	Total
Province of Alberta			
Pembina Area	750,678	202,962	953,640
Rainbow Area	86,519	87,967	174,486
Other	738,454	74,466	812,920
	1,575,651	365,395	1,941,046
Province of Saskatchewan			
Parkman Area	71,393	—	71,393
South Eureka Area	62,684	—	62,684
Other	222,604	116,652	339,256
	356,681	116,652	473,333
TOTAL	1,932,332	482,047	2,414,379

NATURAL GAS (MCF)

Province of Alberta			
Peace River Area	90,980,000	—	90,980,000
Other	12,258,000	4,170,000	16,428,000
TOTAL	103,238,000	4,170,000	107,408,000

As at December 31, 1975, the Energy Companies total proven and probable reserves of crude oil and condensate, before deducting royalties, were estimated to be 2,414,379 barrels. As in the previous year, approximately 80% of these reserves are situated in the Province of Alberta.

As at December 31, 1975, total proven and probable natural gas reserves totalled 107,408 million cubic feet. All the natural gas reserves are located in the Province of Alberta.

During the year, the Energy Companies added

13,598 million cubic feet of new proven natural gas reserves and an additional 1,653 million cubic feet of probable natural gas reserves to its reserve base. These new reserves more than offset production of approximately 2,679 million cubic feet.

The Dunvegan field accounts for 63% of the total proven natural gas reserves and 30% of the total proven crude oil reserves, of the Energy Companies.

PRICES

During the year, the Canadian Government continued to suppress oil and gas prices below world market levels. However, some improvement occurred in July 1975, when the price of oil was increased by \$1.50 per barrel, at the wellhead.

An additional increase in the price of oil is expected in 1976. Based on the present scale of

royalties in Alberta, Paloma should realize about 50% of any price increase before tax. Due to current government policies in Saskatchewan, the Company does not anticipate receiving any benefit from this price increase on its Saskatchewan oil production. Reserves in Saskatchewan account for 18% of our proven crude oil and condensate reserves.

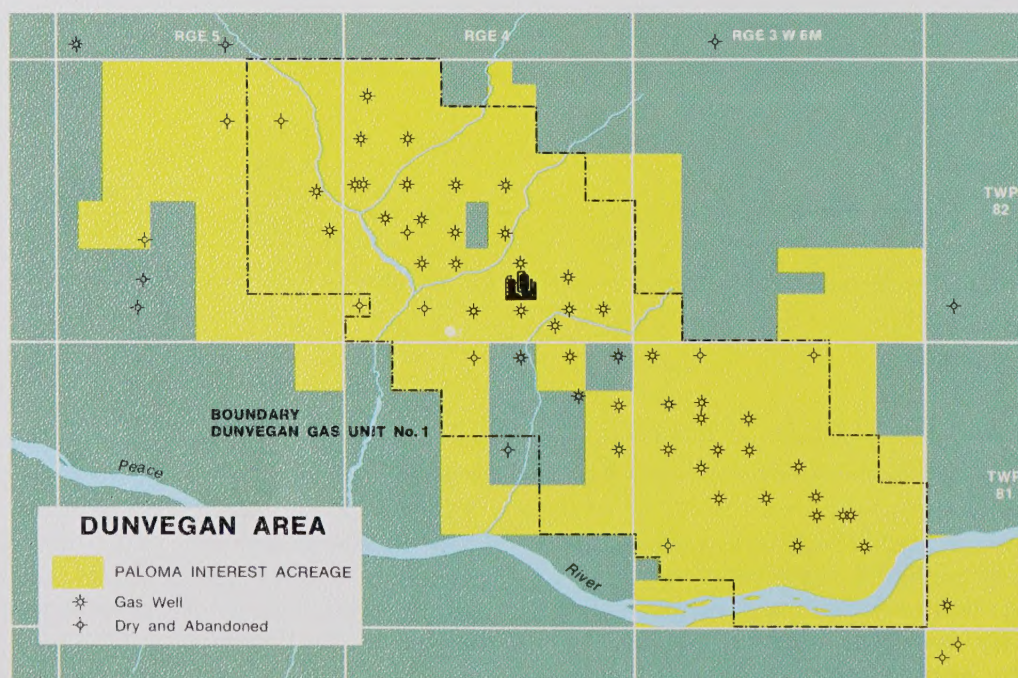
All of the Energy Companies natural gas production is in the Province of Alberta. The price received is subject to control by the Alberta Petroleum Marketing Commission, pursuant to the recently enacted Natural Gas Price Agreement Act. The price is established monthly by the Commission and was 96.3¢ per thousand cubic feet for the month of December 1975. Your Company anticipates further increases in the price of natural gas, in order that a commodity value comparable, on a heating basis, with crude oil is achieved.

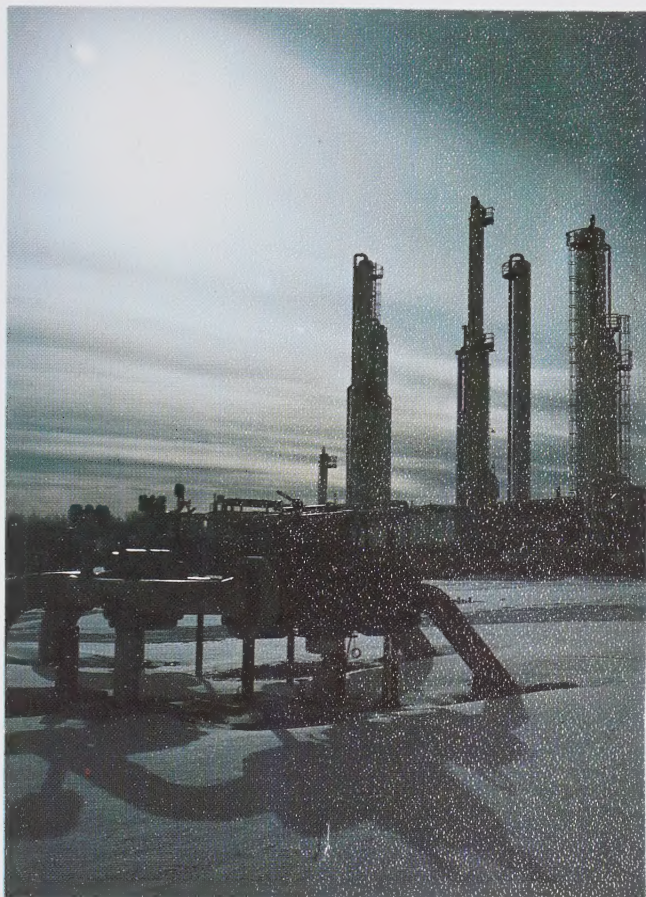
Canadian Operations

Dunvegan

The bulk of Paloma's revenue is generated from its working interest in the Dunvegan Gas Unit #1.

During 1975, Paloma's share of gross sales from Dunvegan was 2,300 million cubic feet and 19,888



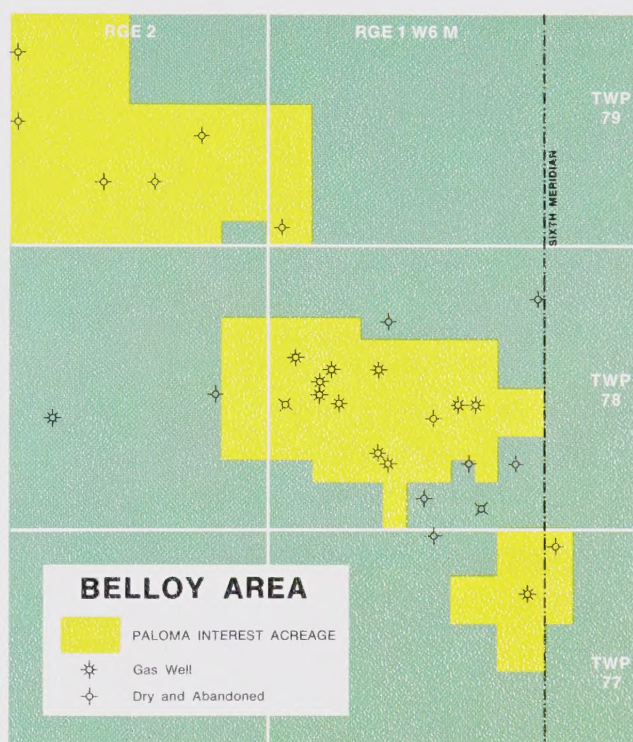


barrels of condensate. This represents a daily average of 6.3 million cubic feet and 54 barrels respectively.

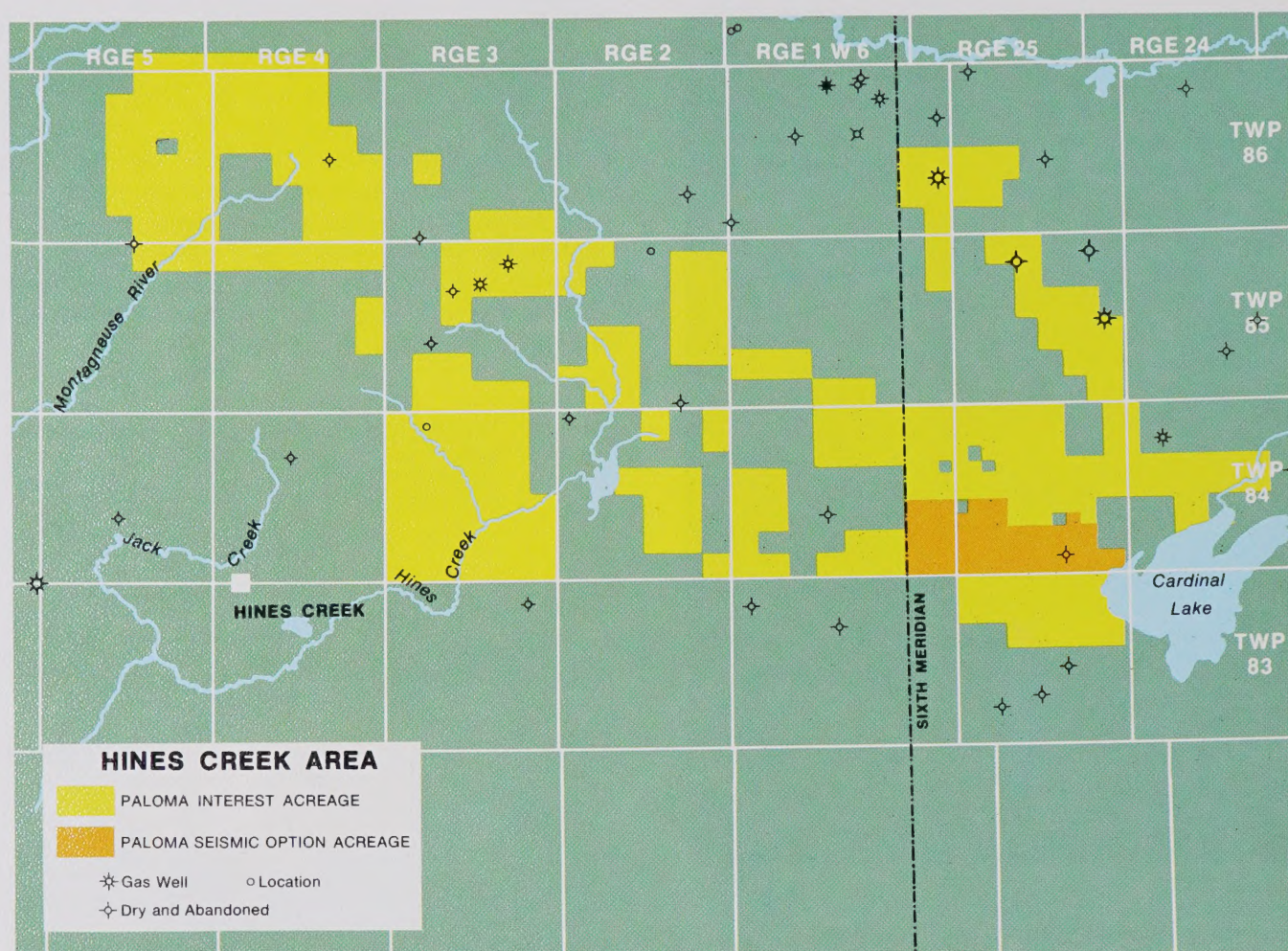
Natural gas deliveries from the Unit averaged 139.3 million cubic feet per day and 1,225 barrels of condensate per day. In order to increase field deliverability to meet gas contract nominations, two projects were undertaken during the year. In June a program of additional development drilling within the field boundary commenced and a total of 12 infill wells were drilled, completed and placed on-stream in November. In order to handle this increased gas flow, a plant expansion was undertaken and completed during the month of October. During the last two months of the year, daily production levels averaged in excess of 180 million cubic feet and it is anticipated that this rate of production will be maintained throughout 1976.

Belloy

Paloma's average interest in the Belloy field was 4.375% during 1975 and its gross gas sales amounted to 296 million cubic feet, which compares with 252 million cubic feet during 1974. Another company involved in this gas field contributed a disproportionate share of the initial capital for this project. Upon recovery of that company's share of the capital, Paloma's interest will be increased from 4.375% to 21.875%, which is expected to occur by mid-1976.



In 1975, the Belloy field had an average production of 7.27 million cubic feet per day, which is thought to be well below the potential production capability of the field. In an attempt to increase gas sales, one infill well was drilled and completed, and placed on stream in mid 1975. This resulted in an average production increase of some 2 million cubic feet per day. Technical studies are being conducted to determine the feasibility of further drilling in order to increase the field's deliverability. Paloma expects that additional infill wells will be drilled in 1976.

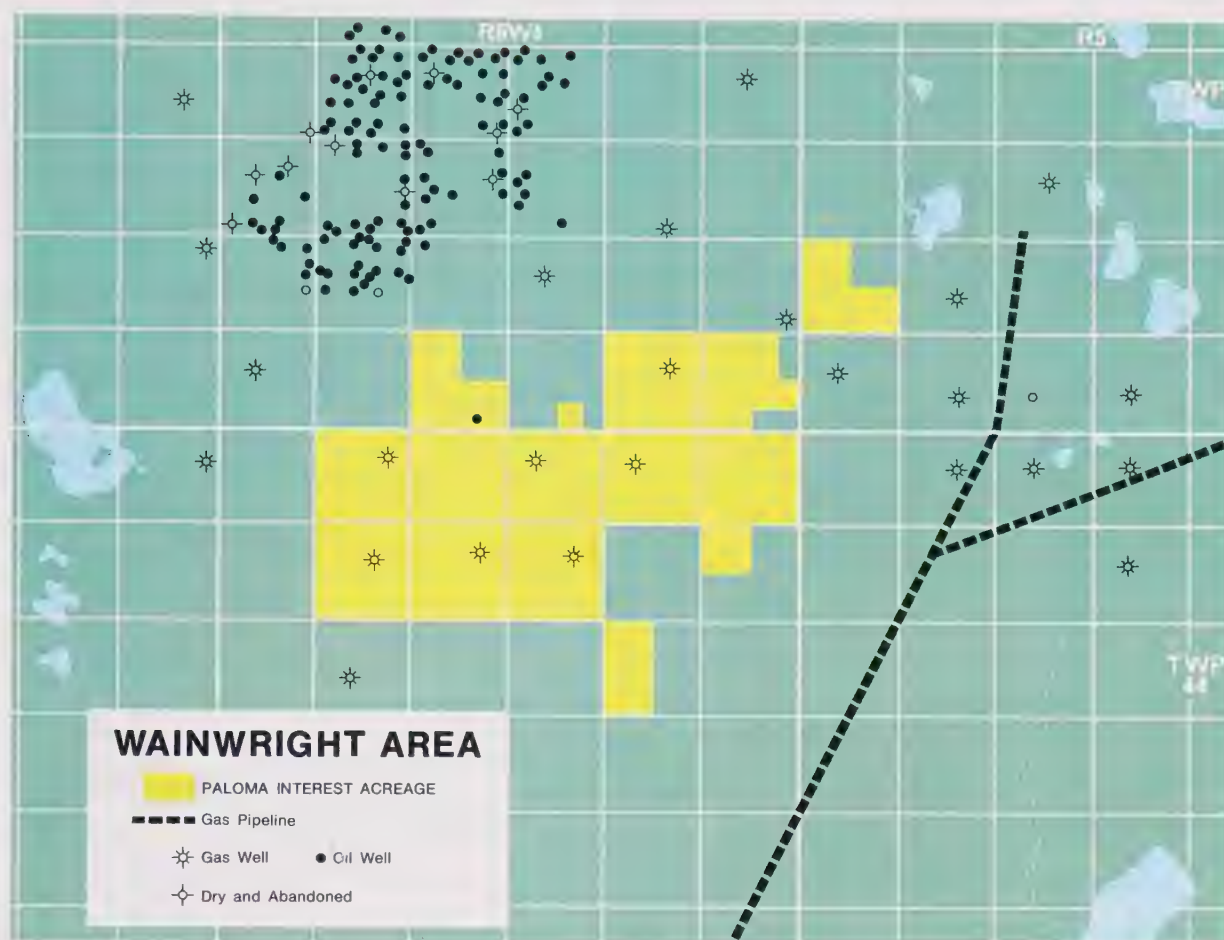


Hines Creek

Two successful wells were drilled in 1974 and are scheduled to go on-stream in April, 1976. The two wells are capable of meeting the 5 million cubic feet per day contract rate and therefore, no additional development wells are presently required. Paloma's interest in this project is 8.33%.

Dixonville

Two successful gas wells were drilled and will be followed by another well to be drilled in the first quarter of 1976. It is planned to put these wells on production in the summer of 1976. The production rate is expected to be in excess of 5 million cubic feet per day. Our interest in the Dixonville project is 8.33%.



Wainwright

Compass Resources has an interest in 7,040 acres (3,930 net acres) in the Wainwright area of Eastern Alberta. This acreage has three shut-in gas wells and one shut-in oil well. Plans commenced in late 1975 for the drilling of seven additional wells and the construction of field facilities to market the gas. A gas contract was negotiated with Northwestern Utilities Ltd., which calls for a production rate of 5.0 million cubic feet per day. It is anticipated that all 10 gas wells will be on stream by mid-1976, with our share of production being about 3.0 million cubic feet per day. The Company is actively acquiring additional land in the area, with a view to further gas development later in 1976. The Company is also studying the feasibility of developing the oil reserves.



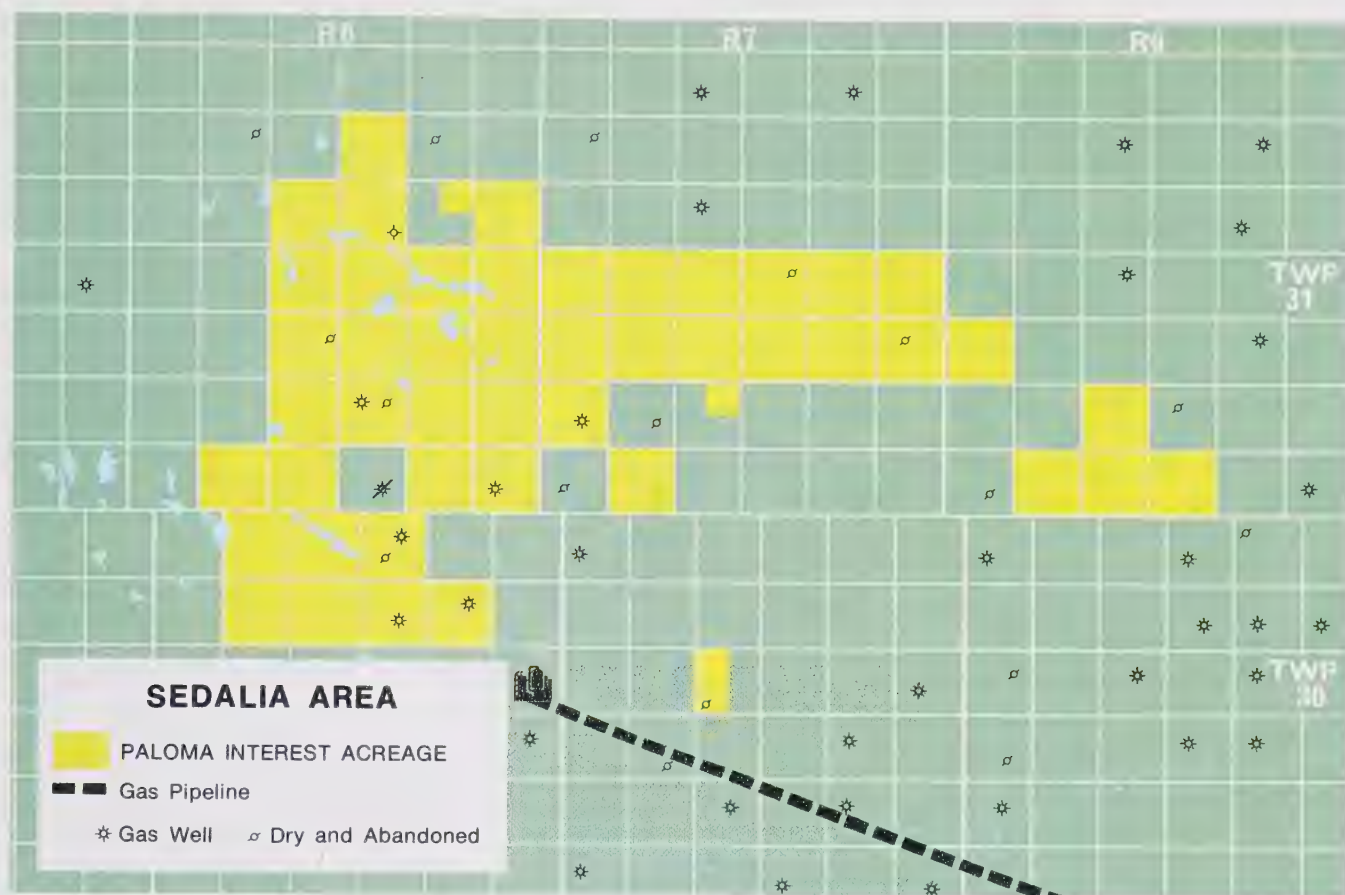


Jarrow

Conquest participated in the drilling of three gas wells in June, 1975, in the Jarrow area, in East Central Alberta. Conquest's interest is slightly in excess of 50%. A gas contract was signed with TransCanada PipeLines for sale of 1.0 million cubic feet per day.

Construction of facilities will be completed early in 1976 and gas sales are expected to commence in April, 1976.

The Company has an interest in 18,109 gross acres (6,324 net acres) of undeveloped land at Jarrow. A comprehensive seismic program was carried out in late 1975 and the Company plans to drill additional wells in 1976.



Sedalia



Conquest has an average working interest of 20% in 27,200 acres at Sedalia and has, to date, participated in the drilling of six wells, five of which were successful gas wells. In late 1975, a gas contract was executed with Northwestern Utilities Ltd., a subsidiary of Canadian Utilities Ltd., which calls for a production rate of 5 million cubic feet per day. Production facilities were completed in late 1975 and gas sales commenced in February, 1976. The Company's share of sales will be approximately 1.25 million cubic feet per day. The area warrants further exploration and additional wells will be drilled in 1976.





LOCATION OF PALOMA ACREAGE

- 1 RAINBOW
- 2 HINES CREEK
- 3 DUNVEGAN
- 4 BELLOY
- 5 GORDONDALE
- 6 DIXONVILLE
- 7 PEMBINA
- 8 CARDINAL LAKE
- 9 WAINWRIGHT
- 10 SEDALIA
- 11 JARROW
- 12 KILDA
- 13 NESTOW
- 14 FERRYBANK

-  PRODUCING ACREAGE
-  NON-PRODUCING ACREAGE



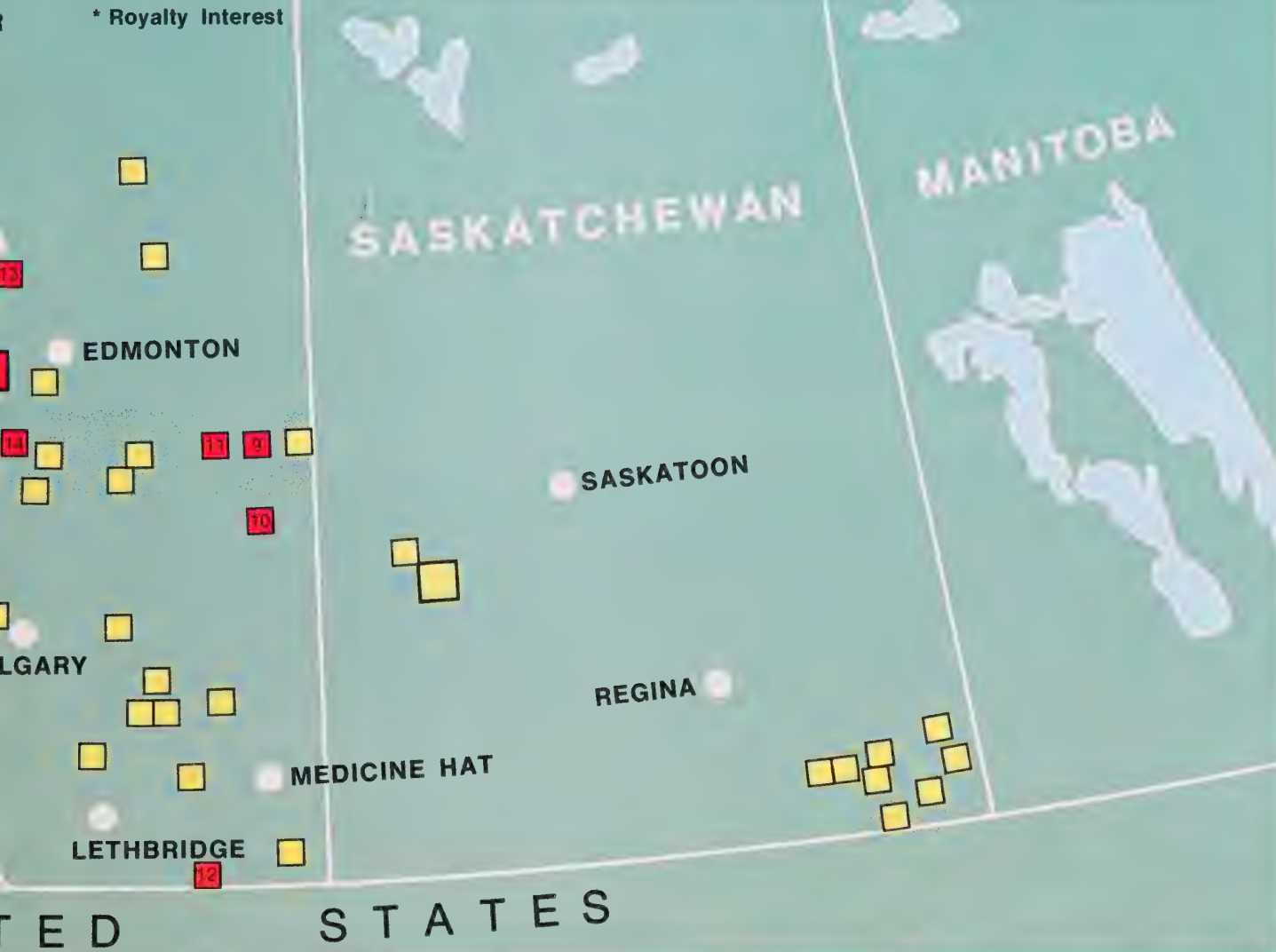
TERRITORIES

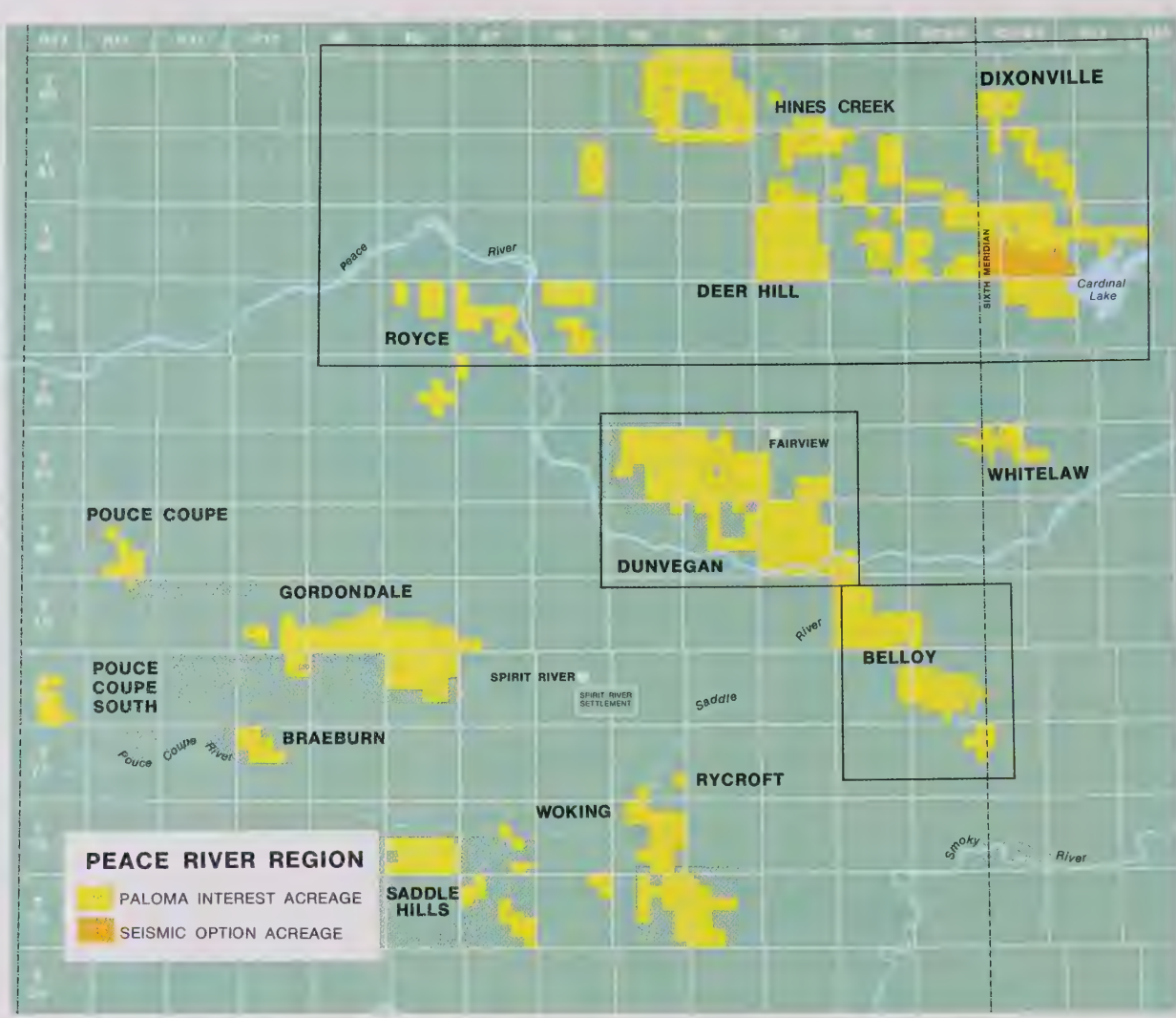
Consolidated Land Holdings

NON-PRODUCING AND PRODUCING ACREAGE as at December 31, 1975

	NON-PRODUCING		PRODUCING		TOTAL	
	Gross	Net	Gross	Net	Gross	Net
Province of British Columbia	640	640			640	640
Province of Alberta	513,667	73,050	148,770	10,015	662,437	83,065
Province of Saskatchewan	4,880	742	30,368	1,908	35,248	2,650
Arctic Islands	3,491,169*	164,958			3,491,169	164,958
U.S.A.	127,401	68,448	720	24	128,121	68,472
	4,137,757	307,838	179,858	11,947	4,317,615	319,785

* Royalty Interest





Other Alberta Exploration Activity

Compass Resources participated in the drilling of a successful gas well in the Ferrybank area of Central Alberta. A gas contract calling for the sale of 2.0 million cubic feet per day, at prevailing gas prices, was negotiated with Pan Alberta Gas Ltd. The well will go on-stream by mid-1976 with Compass Resources' interest being 18.75%. No further drilling is planned at Ferrybank because additional land is unavailable.

Compass Resources also participated in late 1975 in the drilling of one gas well and one dry hole in the Knappen area of Southern Alberta. Negotiations are currently underway with Canadian Montana Gas Co. Ltd. for a gas contract. Compass Resources' interest in this area is 26%, encompassing approximately 5,400 acres. Further

exploratory drilling in 1976 is dependent on the successful negotiation of gas sales.

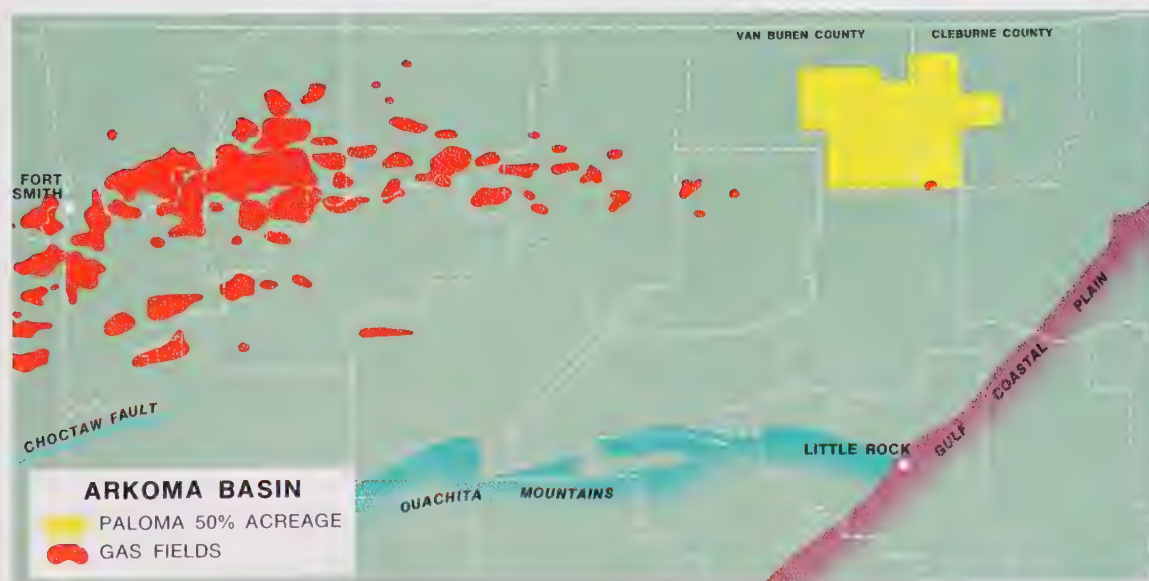
Compass Resources has been involved in an active exploration program at Nestow, which is approximately 40 miles northwest of Edmonton. The Company has a 50% interest in 5,920 acres, with options to earn a 25% interest in 9,920 additional acres. Compass Resources has participated in two dry holes and one gas well. The gas well, drilled in early 1976, has gas in a number of Cretaceous sands. A gas contract is being negotiated and the well is expected to be on-stream in mid-1976 at a rate of approximately 5 million cubic feet per day. Compass Resources plans to participate to the extent of 25% in at least three additional wells at Nestow during 1976.

Foreign Operations

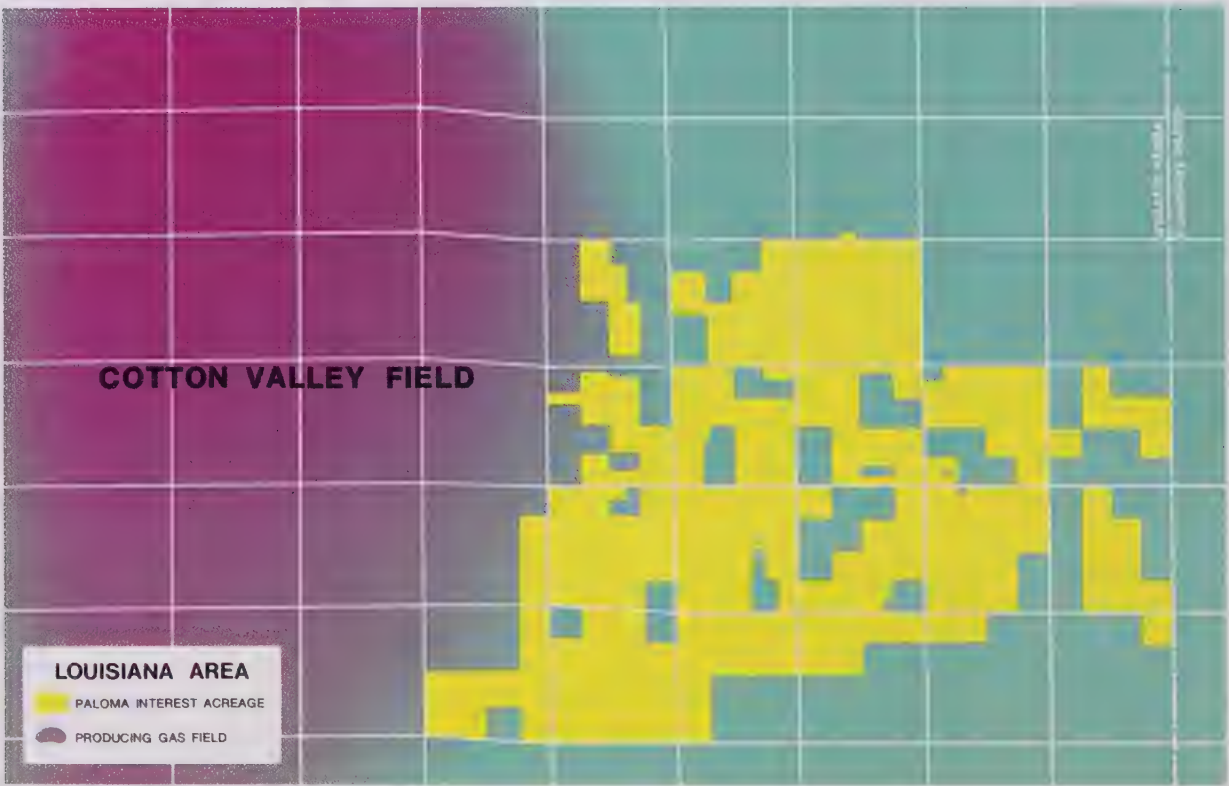
United States

Paloma Petroleum, Inc. ("Paloma Inc."), a wholly-owned subsidiary of Paloma, has been acquiring acreage, along with U.S. partners, on prospective geologic trends in Oklahoma, Arkansas and Louisiana. Paloma Inc. has 12,162 acres in the Arkoma Basin of Oklahoma, on which it plans to develop drilling prospects.

Along the eastern extension of the Arkoma Basin in Arkansas, Paloma Inc. has a 33 1/3% interest in 103,000 acres and additional land acquisition is in progress. Paloma Inc. plans to participate in the drilling of a 3,500 ft. test well on this gas prospect in 1976.



Paloma Inc. has a 25% interest in approximately 6,500 acres near the Cotton Valley field, in Webster County, northwestern Louisiana. The acreage has potential for gas and condensate production from the Smackover formation at 12,000 ft. depths. Paloma Inc. and partners negotiated a farmout at year-end, whereby a third party will earn a 75% interest in the lands in return for drilling a Smackover test well and paying a cash bonus payment.



UNITED KINGDOM

Grizzly Petroleum Limited, a wholly-owned subsidiary of Paloma, owned a 6¼ % net carried interest in Block 48/23 in the United Kingdom

sector of the North Sea. Another company, which had a seismic option on this block, elected not to drill and the block was subsequently relinquished to the United Kingdom Government.

Compass Investments of Alberta Limited

Compass Investments of Alberta Limited ("Compass Alberta") was incorporated in 1954, some of its main objects being to own and operate hotels and restaurants. It now owns and operates the Mayfair Hotel in Edmonton, the Drayton Valley Hotel in Drayton Valley and the Swan Hills Hotel in Swan Hills, all in Alberta.

The Mayfair Hotel, on Jasper Avenue in Edmonton, has 164 rooms, restaurant, coffee shop, beverage room and banquet facilities, and tenants provide barber shop, drug store and car rental services in the hotel. The head office of Compass Alberta is in the Mayfair Hotel.

The Drayton Valley Hotel has 43 rooms and the usual facilities in the business section of the town, while in Swan Hills the hotel provides 18 rooms, again in the centre of the town.

Compass Alberta also operates two cafeterias

in Edmonton and six in Calgary. These are all self-service cafeterias and since they are all located so as to cater to local business workers, they are not open after 3:30 p.m. As a result, they are less labour-intensive than many restaurants and they show good rates of return on investment.

In addition to these hotel and catering operations, Compass Alberta owns a small shopping-centre in Drayton Valley (which is tenanted), twelve lots of land in the business section of Swan Hills (which are undeveloped), a desirable corner property on Jasper Avenue, in Edmonton, which is leased to a carpark operator, and two and one-half acres of land in the business section of Smith, Alberta.

Compass Alberta also has portfolio investments in the oil and gas industry and owns all the issued shares of Conquest Oil & Mining Ltd., which, in turn, controls Compass Resources Ltd.





Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Paloma Petroleum Ltd. and subsidiary companies as at December 31, 1975 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

Calgary, Alberta
March 12, 1976

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

Consolidated Statement of Earnings

Year ended December 31, 1975

(with comparative figures for 1974 — unaudited (Note 1))

	1975	1974
Revenue:		
Oil and gas	\$1,965,366	1,251,965
Expenses:		
Production	199,078	223,341
General and administrative	382,697	383,936
Interest on long-term debt	296,433	173,884
Depreciation	49,014	65,985
Depletion	104,856	116,002
	1,032,078	963,148
Earnings before income taxes and extraordinary items	933,288	288,817
Income taxes:		
Current	117,500	—
Deferred	460,600	197,727
Province of Alberta Royalty Credit	(304,500)	(78,637)
	273,600	119,090
Net earnings before extraordinary items	659,688	169,727
Extraordinary items:		
Reduction of deferred income taxes resulting from application of drilling and exploration expenses by certain subsidiaries	75,600	59,200
Recovery of advances to non-consolidated subsidiary	—	248,363
	75,600	307,563
Net earnings	\$ 735,288	477,290
Net earnings per share (Note 6):		
Before extraordinary item	\$ 0.16	0.04
Extraordinary item	0.02	0.07
	\$ 0.18	0.11

See accompanying notes.

Consolidated Statement of Changes in Financial Position

Year ended December 31, 1975

(with comparative figures for 1974 — unaudited (Note 1))

	1975	1974
Source of funds:		
Net earnings before extraordinary items	\$ 659,688	169,727
Add (deduct) items not affecting working capital:		
Depreciation	49,014	65,985
Depletion	104,856	116,002
Deferred income taxes	460,600	197,727
Other	—	(34,920)
Working capital provided from operations	1,274,158	514,521
Proceeds on sale of capital assets	18,863	90,937
Increase in bank loans	9,800,000	398,140
Recovery of advance to non-consolidated subsidiary	—	248,363
Issue of 10% subordinated note payable	271,580	—
	11,364,601	1,251,961
Use of funds:		
Purchase of property, plant and equipment	794,754	741,371
Reduction of long-term debt	2,575,731	557,259
Financing costs	113,481	—
Amalgamation costs	—	70,134
Net assets acquired on purchase of subsidiaries including working capital deficiency of \$42,416 (Note 2)	7,855,452	—
	11,339,418	1,368,764
Increase (decrease) in working capital	25,183	(116,803)
Working capital at beginning of year	238,072	354,875
Working capital at end of year	\$ 263,255	238,072

Consolidated Statement of Retained Earnings

Year ended December 31, 1975

(with comparative figures for 1974 — unaudited (Note 1))

	1975	1974
Balance at beginning of year	\$ 92,986	(314,170)
Add costs of amalgamation	—	70,134
	92,986	(384,304)
Net earnings	735,288	477,290
Balance at end of year	\$ 828,274	92,986

See accompanying notes.

CONSOLIDATED BALANCE SHEET

December 31, 1975

(with comparative figures for 1974)


ASSETS


	1975	1974
Current assets:		
Cash	\$ 1,104,110	214,465
Accounts receivable	1,280,555	466,991
Inventories, at lower of cost and replacement cost	59,467	—
Prepaid expenses	21,827	9,695
Total current assets	2,465,959	691,151
Property, plant and equipment, at cost (Note 3)	15,732,365	5,017,460
Less accumulated depletion and depreciation	1,507,432	1,354,562
	14,224,933	3,662,898
Other assets:		
Marketable securities, at cost, which approximates market value	485,631	—
Agreements for sale receivable, net of current portion	172,024	—
Video tapes, at cost	435,469	—
Drilling and other deposits, at cost	60,371	46,339
Sundry	18,437	9,217
Financing costs	113,481	—
	1,285,413	55,556
Excess of purchase price of subsidiary over fair market value of net assets acquired, at cost (Note 2)	810,163	—
	\$18,786,468	4,409,605

LIABILITIES

Current liabilities:		
Bank loan	\$ 122,597	—
Accounts payable and accrued liabilities	1,338,920	393,079
Current portion of long-term debt	741,187	60,000
Total current liabilities	2,202,704	453,079
Long-term debt (Note 4)	12,580,716	2,175,731
Deferred income taxes	1,441,933	138,527
Minority interest in subsidiary companies	223,559	40,000
Shareholders' equity:		
Capital stock:		
Common shares without nominal or par value		
Authorized 7,000,000 shares; issued 4,139,149	1,171,282	1,171,282
Contributed surplus	338,000	338,000
Retained earnings	828,274	92,986
	2,337,556	1,602,268
	\$18,786,468	4,409,605

Approved on behalf of the Board:

 C. Adams, Director

 John E. Stewart, Director

See accompanying notes.

Notes to Consolidated Financial Statements

December 31, 1975

1. ACCOUNTING POLICIES:

(a) The Company was formed by way of amalgamation, between Paloma Petroleum Ltd. and Pinnacle Petroleums Ltd., on October 1, 1974, and elected December 31 as its fiscal year end. Accordingly, the comparative figures in the consolidated statements of earnings, retained earnings and changes in financial position for December 31, 1974, are presented as if the amalgamation had been effected on December 31, 1973. These comparative figures have not been audited.

(b) The consolidated financial statements include the accounts of the wholly-owned subsidiaries, a 60%-owned subsidiary, Grenville Explorations Limited, and a 91.45%-owned subsidiary, Compass Investments of Alberta Limited, which was acquired during the year (see Note 2). All expenditures of Grenville are pre-production costs which have been capitalized and included in "Mining properties".

(c) The Company follows the full cost method of accounting, wherein all expenditures for exploration and development of petroleum and natural gas reserves in North America are capitalized and depleted on the composite unit-of-production method, based on the estimated proven reserves, as determined by independent engineers.

(d) Oil and gas production and processing equipment is depreciated on the composite unit-of-production method. Other equipment is depreciated on the declining balance method at rates varying from 20-30 percent, which rates are estimated to amortize the costs over the useful lives of the assets. Commencing January 1, 1976, depreciation on the straight line method will be provided on assets of the hotel and real estate operations as follows:

Buildings	— 4% - 5%
Equipment	— 5% - 10%

(e) Video tapes are carried at cost. Amortization will commence at the time of commercial distribution of the tapes.

(f) Financing costs will be amortized over six years, commencing January 1, 1976.

(g) The Company follows the tax allocation basis of accounting for timing differences between net earnings and taxable income.

2. ACQUISITION OF SUBSIDIARIES:

On December 3, 1975, the Company acquired 2,906,350 common shares of Compass Investments of Alberta Limited, being 91.45% of the total issued and outstanding shares of that company for an aggregate purchase price of \$7,813,036.

Compass Investments of Alberta Limited has a wholly-owned subsidiary, Conquest Oil & Mining Ltd., which has a 78%-owned subsidiary, Compass Resources Ltd. which itself has a 100%-owned subsidiary, Conquest Resources, Inc.

This acquisition has been accounted for under the purchase method of accounting. As the results of operations of these companies from December 3, 1975 are insignificant, they have not been included in the accompanying consolidated statement of earnings.

Details of this acquisition are as follows:

Net book value of net assets acquired	\$ 2,023,068
Deduct minority interest	183,559
	1,839,509
Adjustment to fair market value	5,163,364
Excess of purchase price over fair market value	
of net assets acquired	810,163
Total purchase price	\$ 7,813,036
Represented by:	
Property plant and equipment	\$ 9,942,069
Other assets	1,114,320
Excess of purchase price over fair market value of	
net assets acquired	810,163
	11,866,552

Deduct liabilities assumed:		
Working capital deficiency	\$ 42,416	
Long-term debt	2,909,135	
Deferred income taxes	918,406	
Minority interest	183,559	4,053,516
		<u>\$ 7,813,036</u>
Consideration paid:		
Cash		\$ 7,541,456
10% Subordinated note payable to shareholder (See Note 4)		271,580
		<u>\$ 7,813,036</u>

The excess of purchase price over fair market value of net assets acquired, will be amortized, beginning in 1976, over a period of 30 years.

3. PROPERTY PLANT AND EQUIPMENT:

	1975	1974
Oil and gas operations:		
Petroleum and natural gas properties	\$ 8,329,654	3,927,257
Less accumulated depletion	1,031,976	927,120
	<u>7,297,678</u>	<u>3,000,137</u>
Production and other equipment	1,583,023	931,505
Less accumulated depreciation	475,456	427,442
	<u>1,107,567</u>	<u>504,063</u>
Total oil and gas	8,405,245	3,504,200
Mining properties	164,220	158,698
Hotel and real estate operations:		
Land, buildings, equipment and improvements	5,655,468	—
	<u>\$14,224,933</u>	<u>3,662,898</u>

4. LONG-TERM DEBT:

	1975	1974
Bank loans — see below	\$10,535,000	2,027,000
7% to 10% first mortgages and agreements for sale, secured by certain lands and buildings, due 1979 to 1988	1,977,906	—
10% notes payable to shareholder, unsecured, subordinated in favor of bank loans	271,580	—
Note payable to affiliated company, unsecured, interest 2% over prime rate	243,750	—
Note payable on video tapes, unsecured, non-interest bearing, due 1981	293,667	—
Development loan, non interest bearing, payable from production of oil and gas	—	208,371
	<u>13,321,903</u>	<u>2,235,371</u>
Deduct current portion of long-term debt	741,187	60,000
	<u>\$12,580,716</u>	<u>2,175,371</u>

Although the bank loans are repayable on demand under the terms of repayment, \$9,800,000 of the loans shall be repaid in consecutive quarterly instalments, commencing September 30, 1976, and continuing through to June 30, 1981, as follows:

	Quarterly Repayments	Aggregate of Quarterly Repayments
1976	\$200,000	\$ 400,000
1977	300,000	1,200,000
1978	500,000	2,000,000
1979	620,000	2,480,000
1980	620,000	2,480,000
1981	620,000	1,240,000
		\$9,800,000

Approximately \$74,000 of the balance of the bank loans of \$735,000 will be repaid in 1976.

The \$9,800,000 loan is subject to mandatory prepayments to be applied in the inverse order of maturity if operating cash income (as defined) exceeds on a quarterly basis, the payments referred to above.

The bank loans are secured by an assignment of the company's interests in certain petroleum and natural gas properties, assignments of book debts and a pledge of the shares of Compass Investments of Alberta Limited. In addition, a subsidiary has issued, as additional security, a first floating charge debenture in the principal amount of \$3,000,000 and an assignment of sale proceeds of certain land and buildings of \$2,300,000. Interest is at the rate of 1½% over the prime lending rate.

Under the terms of the bank loans, certain requirements are placed on the Company with regard to maintenance of consolidated working capital and shareholders' equity. In addition, the payment of dividends is restricted.

5. REMUNERATION:

The aggregate remuneration paid to directors and senior officers during the year amounted to \$220,840.

6. NET EARNINGS PER SHARE:

The net earnings per share is calculated using the weighted average number of shares outstanding during the year.

HEAD OFFICE

1150 Guinness House
727 - 7th Avenue S.W.
Calgary, Alberta T2P 0Z7
(403) 265-9265

DIRECTORS:

W. J. Adams, Edmonton, Alberta
Director and President — Compass Investments of Alberta Limited
Director and President — Conquest Oil & Mining Ltd.
Director and Chairman — Compass Resources Ltd.
Director and President — Parker Investments Limited

W. Roy Jennings, Calgary, Alberta
Director and President — Soalta Development Limited
Director and President — Chinook Holdings Limited
Director and President — Royam Investments Limited

D. M. Laurence, Calgary, Alberta
Director and President — Compass Consultants (Canada) Ltd.

W. H. Molle, Toronto, Ontario
Director and President — Wilmar Business Services Ltd.
Director — R. C. Baxter Ltd.
Director — MacKenzie Air Ltd.
Director — Shirley Helicopter Ltd.
Director — Corporate Capital Resources Corporation Ltd.

John E. Stobart, Calgary, Alberta
Director — Compass Investments of Alberta Limited
Director and Vice-President — Conquest Oil & Mining Ltd.
Director and President — Compass Resources Ltd.
Director and President — Conquest Resources, Inc.
Director — Merland Explorations Ltd.

OFFICERS:

W. J. Adams, Chairman of the Board
John E. Stobart, President
D. L. Kolesar, Vice-President
N. F. Talbot, Secretary-Treasurer
D. M. Laurence, Deputy Chairman of the Board

AUDITORS:

Peat, Marwick, Mitchell & Co.
Chartered Accountants
Calgary, Alberta

BANKERS:

The Toronto-Dominion Bank
Main Branch
Calgary, Alberta

LEGAL COUNSEL:

McLaws & Company
Barristers & Solicitors
Calgary, Alberta

REGISTRAR AND TRANSFER AGENT FOR SHARES:

Montreal Trust Company at its offices:
Calgary, Alberta
Vancouver, British Columbia
Toronto, Ontario
Montreal, Quebec

STOCK EXCHANGE LISTING:

The Toronto Stock Exchange (Symbol PAL)

SUBSIDIARY AND AFFILIATED COMPANIES:

Baldonnel Oil & Gas Ltd.
Grizzly Petroleum Limited
Grizzly Exploration (UK) Ltd.
Paloma Petroleums, Inc.
Grenville Exploration Ltd.
Grenville Petroleums, Inc.
Compass Investments of Alberta Limited
Conquest Oil & Mining Ltd.
Compass Resources Ltd.
Conquest Resources, Inc.

PALOMA PETROLEUM LTD.

1150 Guinness House
Calgary, Alberta

INFORMATION CIRCULAR

PURPOSE OF SOLICITATION

This Information Circular is furnished in connection with the solicitation of proxies by the management of Paloma Petroleum Ltd. (hereinafter called "the Company") for use at the Annual and Special General Meeting of the Shareholders of the Company to be held in the Salon A, at the Holiday Inn, 708 - 8th Avenue S.W., in the City of Calgary, in the Province of Alberta, on the 28th day of April, 1976, at the hour of 2:00 p.m. (Calgary time) and any adjournment or adjournments thereof for the purposes set out in the accompanying Notice of Meeting.

It is expected that the solicitation of proxies will be primarily by mail. Proxies may also be solicited personally or by telephone by regular employees of the Company at nominal cost. The cost of solicitation by management will be borne by the Company. No Director of the Company has informed the management in writing or otherwise that he intends to oppose any action intended to be taken by the management.

APPOINTMENT OF PROXIES

THE PERSONS NAMED IN THE ENCLOSED FORM OF PROXY ARE DIRECTORS OR OFFICERS OF THE COMPANY. A SHAREHOLDER HAS THE RIGHT TO DESIGNATE A PERSON (WHO NEED NOT BE A SHAREHOLDER OF THE COMPANY) OTHER THAN MESSRS. JOHN E. STOBART AND DENNIS L. KOLESAR, THE MANAGEMENT DESIGNEES, TO ATTEND AND ACT FOR HIM AT THE MEETING. Such right may be exercised by inserting in the blank space provided in the form the name of the person to be designated, or by completing another proper instrument of proxy and, in either case, delivering the resulting instrument of proxy to Montreal Trust Company at 411 - 8th Avenue S.W., Calgary, Alberta, not less than 48 hours before the time for holding the meeting.

REVOCATION OF PROXIES

A shareholder who has given a proxy may revoke it as to any matter upon which a vote has not already been cast pursuant to the authority conferred by the proxy by either executing a proxy bearing a later date and delivering it to the Montreal Trust Company not less than 48 hours before the time for holding the meeting, or by executing a valid Notice of Revocation and delivering the same to the Montreal Trust Company before the time for holding the meeting. In addition, a proxy may be revoked by the shareholder personally attending at the meeting and by voting his shares.

VOTING OF PROXIES

All shares represented at the meeting by properly executed proxies will be voted and where a choice with respect to any matter to be acted upon has been specified in the instrument of proxy the shares represented by the proxy will be voted in accordance with such specification. THE ENCLOSED INSTRUMENT OF PROXY CONFERS DISCRETIONARY AUTHORITY UPON THE MANAGEMENT DESIGNEES OR OTHER PERSONS NAMED AS PROXY, WITH RESPECT TO AMENDMENTS TO OR VARIATIONS OF MATTERS IDENTIFIED IN THE NOTICE OF MEETING AND ANY OTHER MATTERS WHICH MAY PROPERLY COME BEFORE THE MEETING. AT THE TIME OF PRINTING THIS INFORMATION CIRCULAR, THE MANAGEMENT OF THE COMPANY KNOWS OF NO SUCH AMENDMENTS, VARIATIONS OR OTHER MATTERS TO COME BEFORE THE MEETING OTHER THAN THE MATTERS REFERRED TO IN THE NOTICE OF MEETING.

VOTING SHARES AND PRINCIPAL HOLDERS THEREOF

The holders of common shares are entitled to vote such shares at the meeting on the basis of one vote for each such share held. Three or more shareholders personally present and holding or representing by proxy not less than 5% of the outstanding shares of the Company will constitute a quorum. As of the date hereof, 4,139,149 of the Company's shares are issued and outstanding out of a total authorized share capital of 7,000,000 shares without nominal or par value. The Company has no other class of shares.

To the knowledge of the directors and senior officers of the Company, the following is the only person who owns, of record or beneficially, directly or indirectly, more than 10% of the outstanding shares of the Company:

<u>Name and Address</u>	<u>Record and/or Beneficial</u>	<u>Number of Shares</u>	<u>Percentage of Outstanding Shares</u>
R. John Adams 1 Belgrave Place London, England	record and beneficial	3,610,994	87.2%

ELECTION OF DIRECTORS

Action is proposed to be taken at the meeting with respect to the election of Directors.

It is proposed that the following persons, all of whom are presently Directors of the Company (and have been since the dates indicated), will be nominated at the meeting. IT IS THE INTENTION OF THE MANAGEMENT DESIGNEES, IF NAMED AS PROXY, TO VOTE FOR THE ELECTION OF SAID PERSONS TO THE BOARD OF DIRECTORS UNLESS OTHERWISE DIRECTED. Each Director elected will hold office until the next Annual Meeting, or until his successor is duly elected or appointed, unless his office be earlier vacated in accordance with the Articles of Association. The following information relating to the nominees as Directors is based partly on the Company's records and partly on information received by the Company from the said nominees and sets forth the name and address of each of the persons proposed to be nominated for election as a Director, his principal occupation at present and the preceding five years, all other positions and offices in the Company held by him, the year in which he was first elected a Director, and the approximate number of shares of the Company that he has advised the Company are beneficially owned by him, directly or indirectly.

<u>Nominee as Director</u>	<u>Position Presently Held</u>	<u>Chief Occupation during the past five years</u>	<u>Director Since</u>	<u>Shares Beneficially Owned as of March 29, 1976</u>
Walter J. Adams Suite 135 10815 Jasper Avenue Edmonton, Alberta	Chairman of the Board and Director	President, Compass Investments of Alberta Limited since January, 1971; previously general manager of Compass Investments of Alberta Limited	Dec. 3, 1975	1,000
John E. Stobart 1330 Riverdale Ave. S.W. Calgary, Alberta	President and Director	President of the Company since December 3, 1975; President of Compass Resources Ltd. from April, 1975; Vice-President, International Operations, Mesa Petroleum Co. from March, 1972 to December, 1974; previously Vice-President and general manager of Canadian operations, Mesa Petroleum Co.	Dec. 3, 1975	1,000

<u>Nominee as Director</u>	<u>Position Presently Held</u>	<u>Chief Occupation during the past five years</u>	<u>Director Since</u>	<u>Shares Beneficially Owned as of March 29, 1976</u>
Denys M. Laurence 1404 - 70th Avenue S.W. Calgary, Alberta	Director	President, Compass Consultants (Canada) Ltd. since September, 1975; from October, 1973 to September, 1975, assistant to Robert J. Adams; from March, 1973 to October, 1973, associate, Campbell, Godfrey & Lewtas, Barristers and Solicitors, Toronto, Ontario; prior to March, 1973, Mr. Laurence was a student	Dec. 3, 1975	1,000
William H. Molle 36 Ranchdale Crescent Don Mills, Ontario	Director	President of Wilmar Business Services Ltd.; previously President of First Empire Financial Services Limited from December, 1973 to December, 1975, and prior to December, 1973, President of Greyhound Leasing and Financial of Canada Limited	Oct. 1, 1974	1,156
W. Roy Jennings 44 Eagle Crest Pl. S.W. Calgary, Alberta	Director	President of Soalta Development Limited since 1973, previously Vice-President of Soalta Development Ltd. from 1972 to 1973 and from 1969 to 1972, Executive Vice-President of Chinook Shopping Centre Ltd.	Dec. 5, 1974	3,859*

* Mr. Jennings owns 50% of the outstanding shares of Soalta Developments Limited, which Company owns 7,719 shares of the Company, and therefore Mr. Jennings beneficially indirectly owns 3,859 shares of the Company.

REMUNERATION OF OFFICERS AND DIRECTORS

The aggregate remuneration paid or payable to all directors and senior officers of Paloma, as a group, during Paloma's last completed financial year, by Paloma and its subsidiaries whose financial statements are consolidated with those of Paloma, was \$185,840.00.

STOCK OPTION

A former employee of Paloma Petroleum Ltd. has an option to purchase up to 3,846 shares of the Company at a price of \$4.35 per share on or before April 6, 1976. This option was granted to him on April 7, 1972, when he was an officer and director of Paloma Petroleum Ltd.

APPOINTMENT OF AUDITORS

The Shareholders will be asked to vote for the appointment of Peat, Marwick, Mitchell & Co., Chartered Accountants, Calgary, Alberta, as auditors of Paloma Petroleum Ltd. for the current fiscal year and to authorize the directors to fix their remuneration.

PARTICULARS OF MATTERS TO BE ACTED UPON

The following special Resolution will be laid before the meeting for the consideration of and adoption by the shareholders:

"Resolved, as a Special Resolution, that the Articles of Association of the Company, as filed with the Registrar of Companies, be amended by the deletion of the words and

number MORE THAN SIX (6) in the first line of Article 82 and the addition of the words and number AT LEAST FOUR (4) in substitution therefore, so that the first line of Article 82 shall read:

'82. Whenever the number of directors constituting the Board shall consist of at least four (4)'

and the remainder of Article 82 shall remain unaltered."

Five persons will be nominated as Directors of the Company at the Annual and Special General Meeting of Shareholders to be held on April 28, 1976. If the Articles of Association of the Company are not amended as proposed, the Directors will not be able to appoint an executive committee pursuant to Article 82. This article presently stipulates that an executive committee of three cannot be appointed unless there are at least six members on the board of the Company. The management of the Company is of the opinion that the appointment of an executive committee would expedite the decision making process of the Company without impairing the supervisory role of the Board of Directors. It is also of the opinion that the amendment is preferable to an increase in the number of directors as a means of achieving the objective above set forth.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Pursuant to an agreement dated July 3, 1975, between the Company, as purchaser, and R. J. Adams ("Adams"), as Vendor, Adams agreed to sell and the Company agreed to purchase 2,906,350 common shares without nominal or par value in the capital of Compass Investments of Alberta Limited ("Compass"), being approximately 91.5% of the issued and outstanding shares of Compass, for a purchase price of \$7,771,580.00. The purchase price is payable as to \$7,500,000.00 in cash and as to \$271,580.00 by a demand promissory note to Adams, bearing interest at the rate of 10% per annum. The Company financed the acquisition of the cash portion of the purchase price through a loan from a Canadian Chartered Bank. The loan bears interest at the rate of 1½ % in excess of the bank's prime rate from time to time, matures on June 30, 1981, and is secured by a pledge of an assignment of proceeds from certain oil and gas properties under Section 82 of the Bank Act (Canada), an assignment of book debts, a pledge of all of the issued and outstanding shares of Compass, guarantees by Compass and two of its subsidiaries and the issuance by Compass of a first floating charge debenture on its property and assets. This acquisition was the subject matter of a filing statement dated November 11, 1975, accepted for filing by the Toronto Stock Exchange. Mr. R. J. Adams, of 1 Belgrave Place, London, England, owns 87.2% of the issued and outstanding shares of the Company.

The Company owns 91.5% of the issued and outstanding shares of Compass. Compass owns all the outstanding shares of Conquest Oil & Mining Ltd., which owns 78% of the issued and outstanding shares of Compass Resources Ltd. ("Compass Resources"). Messrs. John E. Stobart (10%), Walter J. Adams (10%) and Dennis Kolesar (2%) hold the percentage equity interests in Compass Resources set after their names. Each of these persons has a right to participate on a working interest basis, at the percentages set forth above, in any exploration, development or acquisition entered into by Compass Resources. This right of participation has been exercised, but only in relation to areas of exploration activity, determined upon by Compass Resources prior to the Company acquiring control of it. Messrs. Adams, of Suite 135, 10815 Jasper Avenue, Edmonton, Alberta, Stobart, of 1330 Riverdale Avenue S.W., Calgary, Alberta, and Kolesar, of 75 Lake Sundance Place S.E., Calgary, Alberta, are officers and directors of Compass Resources and officers of the Company. Messrs. Adams and Stobart are also directors of the Company.

DATED at the City of Calgary, in the Province of Alberta, this 29th day of March, 1976.

BY ORDER OF THE BOARD OF DIRECTORS

Norman F. Talbot
Secretary-Treasurer

PALOMA PETROLEUM LTD.

1150 Guinness House
Calgary, Alberta

NOTICE OF ANNUAL AND SPECIAL GENERAL MEETING OF SHAREHOLDERS TO BE HELD ON APRIL 28, 1976

NOTICE is hereby given that the Annual and Special General Meeting of the shareholders of PALOMA PETROLEUM LTD. (hereinafter called "the Company") will be held in Salon A at the Holiday Inn, 708-8th Avenue S.W., in the City of Calgary, in the Province of Alberta, on Wednesday the 28th day of April, 1976, at the hour of 2:00 p.m. (Calgary time) for the following purposes:

1. To approve the Annual Report of the Directors to the Shareholders, the financial statements of the Company for the fiscal period ended December 31, 1975, and the Auditors' report thereon.
2. To elect directors of the Company for the ensuing year and until their successors shall be duly elected and qualified.
3. To appoint auditors for the fiscal year ended December 31, 1976.
4. To pass the Special Resolution amending the Articles of Association in the form set out in the Information Circular accompanying this notice.
5. To transact such other business as may properly be brought before the Meeting or any adjournment or adjournments thereof.

The share transfer books of the Company will not be closed but, in lieu thereof, the Board of Directors has fixed the close of business on the 29th day of March, 1976, as the record date for the determination of shareholders who are entitled to notice of the Annual and Special General Meeting or any adjournment or adjournments thereof.

It is desirable that as many shares as possible be represented at the meeting. If you do not expect to attend, and would like your shares represented, please complete the enclosed instrument of proxy and return it as soon as possible in the envelope provided for that purpose. The proxy must be deposited at the office of the Montreal Trust Company, at 411-8th Avenue S.W., Calgary, Alberta, not less than 48 hours before the time for holding the meeting.

DATED at Calgary, Alberta, this 29th day of March, 1976.

BY ORDER OF THE BOARD OF DIRECTORS

Norman F. Talbot
Secretary-Treasurer

